CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 15, 1999

H.R. 434
African Growth and Opportunity Act

As ordered reported by the House Committee on Ways and Means on June 10, 1999

SUMMARY

H.R. 434, the African Growth and Opportunity Act, would authorize a new trade and investment policy for sub-Saharan Africa. The bill would extend and expand the Generalized System of Preferences (GSP) with respect to sub-Saharan Africa beyond its current expiration of June 30, 1999, through June 30, 2009. The bill would also amend the Internal Revenue Code in order to limit the use of the nonaccrual experience method of accounting and deny charitable contributions deductions for transfers associated with charitable split dollar insurance arrangements. CBO and the Joint Committee on Taxation (JCT) estimate that the bill would increase governmental receipts by $31 million over the 1999-2004 period. Because the bill would affect receipts, pay-as-you-go procedures would apply.

In addition, the bill could increase discretionary spending by $3 million a year, assuming appropriation of the necessary amounts. The bill would authorize annual high-level meetings between officials of the United States government and their counterparts in sub-Saharan countries eligible for benefits under the bill. The bill would increase the number of foreign commercial service employees stationed in Africa. The bill would require the creation of advisory committees and expanded reporting on trade and investment policy with sub-Saharan Africa.

H.R. 434 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (URMA) and would not affect the budgets of state, local, or tribal governments. The bill would impose two new private-sector mandates by limiting the use of the nonaccrual experience method of accounting and by denying charitable contributions deductions for transfers associated with charitable split dollar insurance arrangements. JCT estimates that the direct costs of the new mandates would not exceed the statutory threshold ($100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 1999 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 434 is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
CHANGES IN REVENUES						
Trade Provisions						
Extension of GSP	-8	-32	-33	-34	-36	-38
Expansion of GSP	0	-8	-17	-17	-18	-18
Subtotal of Trade Provisions	-8	-40	-50	-51	-54	-56
Revenue Offset Provisions	14	88	73	47	43	25
Net Effect on Revenues	6	48	23	-4	-11	-31
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization	0	3	3	3	3	3
Estimated Outlays	0	2	3	3	3	3

BASIS OF ESTIMATE

Revenues

The estimate of extending the existing GSP program with respect to sub-Saharan Africa was based on recent trade data on imports for U.S. consumption of goods from eligible countries. CBO assumed that GSP imports would remain a constant portion of total imports. CBO estimates a trade diversion of half of a percentage point from non-sub-Saharan African GSP beneficiaries who will no longer receive duty-free GSP treatment after June 30, 1999. Losses of revenues from customs duties were projected using a trade-weighted duty rate with respect to sub-Saharan Africa adjusted for tariff reductions scheduled by the World Trade Organization (WTO). Assuming a July 1, 1999, enactment date, CBO estimates that extending the existing GSP program with respect to sub-Saharan Africa would reduce governmental receipts by $182 million over the 1999-2004 period.

The current GSP excludes articles determined by the U.S. Trade Representative (USTR) to be import sensitive from receiving duty-free GSP treatment. H.R. 434 would allow countries of sub-Saharan Africa to ask the President to redetermine import sensitivity of GSP-excluded imports in the context of imports from sub-Saharan Africa. Based on discussions with the International Trade Commission (ITC), CBO identified products that are now import sensitive but are likely not to be considered import sensitive with respect to sub-Saharan Africa. USTR expects that the program to grant additional sub-Saharan African imports duty-free GSP treatment will not be implemented until eight months after the enactment of the law. Assuming a July 1, 1999, enactment date, CBO does not expect that sub-Saharan Africa will receive duty-free treatment for these articles prior to March 1, 2000. Using trade-weighted duty rates adjusted for reductions scheduled by the WTO, CBO estimates that this provision would reduce receipts by $41 million over the 1999-2004 period.

Current law also excludes from duty-free treatment a list of specific products, including apparel, textiles, footwear, leather goods, glass, certain electronic products, and watches. H.R. 434 would extend duty-free treatment to these products if the USTR determines that they are not import sensitive with respect to Sub-Saharan Africa. CBO based its estimate of the loss of duties that would result from granting these goods duty-free GSP treatment on recent collections data. CBO assumed that under existing law, imports of these products would grow at the same rate as total non-petroleum imports. United States imports of footwear, leather goods, glass, certain electronic products, and watches from sub-Saharan Africa are insignificant compared with United States imports of similar goods from other countries. CBO assumes that the USTR will not rule these products import sensitive. The bill would also authorize the administration to grant textile and apparel products duty free and quota free treatment. U.S. imports of textile and apparel products from sub-Saharan Africa are also relatively insignificant, accounting for less than 1 percent of total U.S. imports of such products. Nonetheless, trade experts expect the USTR to rule in favor of the textile industry in determining the import sensitivity of many textile and apparel products. CBO assumes that the USTR will determine 90 percent of eligible imports to be import sensitive. Losses of duties for the remaining 10 percent were projected using trade-weighted duty rates adjusted for scheduled reductions under the WTO. Assuming an implementation date of March 1, 2000, CBO projects that granting these additional products duty-free GSP treatment would reduce receipts by $37 million over the 1999-2004 period.

All other revenue provisions in H.R. 434 were estimated by JCT.

Discretionary Spending

The bill could increase discretionary spending by $3 million a year, assuming appropriation of the necessary amounts.

Section 5 would authorize the Secretaries of Commerce, Treasury, and State and the U.S. Trade Representative to meet with their counterparts from sub-Saharan African countries in an annual trade and economic forum. It would require the United States to host the first forum within 12 months of enactment. Based on the cost of similar meetings, CBO estimates the meetings would cost $2 million a year.

Section 12 would require the Overseas Private Investment Corporation and the Export-Import Bank to create advisory committees to assist in developing policies toward Africa. CBO estimates the advisory committees would cost less than $25,000 each year based on the cost of similar committees. The bill would require reports on trade and investment policy with sub-Saharan Africa and on negotiating free trade agreements. The U.S. Trade Representative currently reports on these issues, and CBO estimates the expanded reporting requirement would result in no significant increase in costs.

Section 14 would direct the International Trade Administration (ITA) to increase from four to 10 the number of countries in sub-Saharan Africa in which foreign commercial service employees are stationed. Currently, the ITA has 24 employees stationed in four countries of sub-Saharan Africa. To establish the six new posts, CBO expects that ITA will hire three new employees and move three current employees to additional countries in sub-Saharan Africa. Based on information from the Department of Commerce, CBO estimates that the cost for each new employee will be about $200,000 in 1999 dollars, which includes the high cost of locating employees in foreign countries. CBO also estimates that there will be moving costs for current employees, but such costs would be less than $500,000 a year. CBO estimates that implementing this section would cost less than $500,000 in 2000 and increase to about $1 million in 2001 and each subsequent year.

Sections 10 and 14 would authorize the executive branch to use development assistance funds to provide technical assistance to sub-Saharan governments to liberalize trade, to bring their legal regimes into compliance with the World Trade Organization, to promote democracy and good governance, and to strengthen conflict resolution. CBO estimates that the cost of those provisions would be minimal because other provisions of law already provide similar authority.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purpose of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in receipts	6	48	23	-4	-11	-31	-32	-34	-34	-36	-30
Changes in outlays	0	0	0	0	0	0	0	0	0	0	0

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 434 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that H.R. 434 would impose two new private-sector mandates by limiting the use of the nonaccrual experience method of accounting and by denying charitable contributions deductions for transfers associated with charitable split dollar insurance arrangements. JCT estimates that the direct costs of the new mandates would not exceed the statutory threshold ($100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 1999 though 2004.

PREVIOUS CBO ESTIMATE

On March 18, 1999, CBO prepared a cost estimate for H.R. 434, as reported by the House Committee on International Relations. The current estimate of the bill differs from the March 18 estimate because of two revenue provisions in the bill added by the House Committee on Ways and Means. The new revenue provisions would limit the use of the nonaccrual experience method of accounting and would deny charitable contributions deductions for transfers associated with charitable split dollar insurance arrangements.

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